
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**ADMINISTRATIVE COSTS
CLAIMED BY THE
NEW YORK DIVISION OF
DISABILITY DETERMINATIONS**

June 2007

A-02-07-17046

AUDIT REPORT



Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, Congress and the public.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.**
- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

Vision

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



SOCIAL SECURITY

MEMORANDUM

Date: June 11, 2007

Refer To:

To: Beatrice M. Disman
Regional Commissioner
New York

From: Inspector General

Subject: Administrative Costs Claimed by the New York Division of Disability Determinations
(A-02-07-17046)

OBJECTIVE

For our audit of Fiscal Year (FY) 2004 and 2005 administrative costs claimed by the New York Division of Disability Determinations (DDD), our objectives were to

- evaluate the DDD's internal controls over the accounting and reporting of administrative costs,
- determine whether costs claimed by the DDD were allowable and funds were properly drawn, and
- assess limited areas of the general security controls environment.

A review of the indirect cost was not part of this review. It will be completed at a later date.

BACKGROUND

Disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs are performed by disability determination services (DDS) in each State or other responsible jurisdiction, according to Federal regulations.¹ Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. To make proper disability determinations, each DDS is authorized to purchase consultative medical examinations and medical evidence of record from the claimants' physicians or other treating sources. SSA pays the DDS for 100 percent of allowable expenditures using a *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513). (For additional background information, see Appendix B.)

¹ 20 C.F.R. §§ 404.1601 *et. seq.* and 416.1001 *et seq.*

RESULTS OF REVIEW

The New York DDD had effective controls over the accounting and reporting of administrative costs. The costs claimed by the DDD on Forms SSA-4513 for FYs 2004 and 2005 – totaling \$286,218,585 – were allowable and funds were properly drawn. However, we found the general security control environment could be improved. The improvements will help ensure the security of sensitive SSA data stored and processed at the site.

GENERAL SECURITY CONTROLS

Overall Security Plan

According to SSA's Program Operations Manual System (POMS),² each DDS must establish and maintain a written DDS security plan. The DDD did not possess an approved overall security plan at the time of our review. The security plan was drafted and awaiting SSA approval before we began our review.

The DDD provided us its Business Continuity Plans for each of the four DDD office locations. In the event of a disruption to any SSA system, a Business Continuity Plan can be activated and conducted in tandem with the security plan to ensure the recovery of the affected functions. However, the Business Continuity Plans did not cover all of the eight required parts of an overall security plan.³ Since our review, the DDD has completed an overall security plan. The plan was approved by SSA regional staff.

Other Security Issues

We found a few physical security-related issues that needed to be addressed to help ensure SSA data stored and processed at the DDD were secure. The DDD failed to meet certain standards required by SSA physical security guidance.⁴ The conditions posed the risk of unauthorized access to sensitive SSA information and systems and the interruption of service if the systems were compromised. The DDD staff stated that the DDD was denied the funding it requested to correct these conditions because of a lack of resources. We discussed our findings with DDD officials and they noted in their response to our draft report that they look forward to working with SSA to rectify the conditions in the near future.

² POMS, Section DI 39566.120 B., DDS Security Plan.

³ The eight required parts of the security plan are DDS Security Description; DDS Systems Interconnection Access Security Plan; Systems Security Awareness and Training Plan; Annual Systems Review/Recertification Plan; Violations Reports and Resolution Plan; Continuity of Operations Plan; Disaster Recovery Plan; and Risk Assessment. They are found in POMS, Section DI 39566.120 C., DDS Security Plan.

⁴ POMS, Section DI 39566.010 B.1.H., DDS Physical Security.

CONCLUSION AND RECOMMENDATIONS

While the DDD's internal controls over the accounting and reporting of administrative costs were effective, the general physical security controls can be improved. In our draft report, we made two specific recommendations on how to improve the physical security control environment. We omitted the specific recommendations in the final report to prevent compromising DDD security.

AGENCY COMMENTS

SSA's New York Regional Commissioner and New York State's Commissioner of the Office of Temporary and Disability Assistance agreed with our comments. Please see Appendix D for the full text of SSA's comments.

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Appendices

APPENDIX A - Acronyms

APPENDIX B - Background, Scope, and Methodology

APPENDIX C - Schedule of Total Costs Reported on Forms SSA-4513-*State Agency Reports of Obligations for Social Security Administration Disability Programs*

APPENDIX D - Agency Comments

APPENDIX E - OIG Contacts and Staff Acknowledgments

Acronyms

Act	<i>Social Security Act</i>
C.F.R.	Code of Federal Regulations
DDD	Division of Disability Determinations
DDS	Disability Determination Services
DI	Disability Insurance
FY	Fiscal Year
IDS	Intrusion Detection System
OMB	Office of Management and Budget
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
SSA	Social Security Administration
SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>
SSI	Supplemental Security Income
Treasury	Department of the Treasury
U.S.C.	United States Code

Background, Scope, and Methodology

BACKGROUND

The Disability Insurance (DI) program, established under Title II of the *Social Security Act* (Act),¹ provides benefits to wage earners and their families in the event the wage earner becomes disabled.² The Supplemental Security Income (SSI) program, established under Title XVI of the Act,³ provides benefits to financially needy individuals who are aged, blind, or disabled.⁴

The Social Security Administration (SSA) is responsible for implementing policies for the development of disability claims under the DI and SSI programs. Disability determinations under both the DI and SSI programs are performed by disability determination services (DDS) in each State, Puerto Rico and the District of Columbia in accordance with Federal regulations.⁵ In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS is authorized to purchase medical examinations, x-rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization. The DDS withdraws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments System to pay for program expenditures. Funds drawn down must comply with Federal regulations⁶ and intergovernmental agreements entered into by Treasury and States under the *Cash Management Improvement Act of 1990*.⁷

¹ Social Security Amendments of 1954, Pub. L. No. 83-761, 68 Stat. 1089.

² The *Social Security Act*, §§ 201-234, 42 U.S.C. §§ 401-434.

³ Social Security Amendments of 1972, Pub. L. No. 92-603, 86 Stat. 1465.

⁴ The *Social Security Act*, §§ 1601-1637, 42 U.S.C. §§ 1381-1383f.

⁵ 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

⁶ 31 C.F.R. § 205.1 *et seq.*

⁷ *Cash Management Improvement Act of 1990*, Pub. L. No. 101-453, 104 Stat. 1058 (amending 31 U.S.C. §§ 6501 and 6503).

An advance or reimbursement for costs under the program must comply with Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. At the end of each quarter of the Fiscal Year (FY), each DDS submits a *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) to account for program disbursements and unliquidated obligations.

SCOPE

To accomplish our objectives, we reviewed the administrative costs the New York Division of Disability Determinations (DDD) reported on its Forms SSA-4513 for FYs 2004 and 2005. For the periods reviewed, we obtained evidence to evaluate recorded financial transactions and determine whether they were allowable under OMB Circular A-87, and appropriate, as defined by SSA's Program Operations Manual System.

We also:

- Reviewed applicable Federal laws, regulations and pertinent parts of Program Operations Manual System, DI 39500, *DDS Fiscal and Administrative Management*, and other instructions pertaining to administrative costs incurred by DDD and draw down of SSA funds.
- Interviewed staff at the DDD and SSA's Regional Office.
- Evaluated and tested internal controls regarding accounting and financial reporting and cash management activities.
- Verified the reconciliation of official State accounting records to the administrative costs reported by DDD on Forms SSA-4513 for FYs 2004 and 2005.
- Examined the administrative expenditures (personnel, medical service, and all other non-personnel costs) incurred and claimed by DDD for FYs 2004 and 2005 on Forms SSA-4513.
- Compared the amount of SSA funds drawn to support program operations to the allowable expenditures reported on Forms SSA-4513.
- Reviewed the State of New York Single Audit reports issued in 2004 and 2005.
- Conducted limited general control testing—which encompassed reviewing the physical access security within the DDD.

The electronic data used in our audit were sufficiently reliable to achieve our audit objectives. We assessed the reliability of the electronic data by reconciling them with the costs claimed on the Forms SSA-4513. We also conducted detailed audit testing on selected data elements in the electronic data files.

We performed our audit at the DDD in Albany and New York, New York, and the Office of Audit in New York, New York, from September through December 2006.

We conducted our audit in accordance with generally accepted government auditing standards.

METHODOLOGY

Our sampling methodology encompassed three of the four general areas of costs as reported on Forms SSA-4513: (1) personnel, (2) medical, and (3) all other non-personnel costs. Indirect cost was not part of this audit and will be reviewed at a later date. We also conducted physical security reviews at both the Albany and New York (Manhattan) locations. We obtained computerized data from the DDD for FYs 2004 and 2005 for use in statistical sampling. Also, we reviewed general security controls the DDD had in place.

Personnel Costs

We sampled 100 employee salary items from 1 randomly selected pay period in FY 2005. The sample of 100 employees consisted of 50 salaried employees directly related to the standard operations of the DDD and 50 medical doctors. We tested regular and overtime payroll and hours for each individual selected. We verified that approved time records were maintained and supported the hours worked. We tested payroll records to ensure the DDD correctly paid employees and adequately documented these payments. In addition, we ensured the doctors had valid medical licenses.

We reviewed all four medical consultants on contract for one randomly selected pay period in FY 2005. These medical consultants were individuals who were contracted out as speech pathologists through an outside vendor. We tested whether the medical consultants were paid in accordance with the approved contract. We also ensured that they had valid licenses to perform their duties.

Medical Costs

We sampled 100 medical evidence of records and consultative examination records (50 items from each FY) using a proportional random sample. We determined whether sampled costs were properly reimbursed.

Indirect Costs

Indirect cost was not part of our review. However, we did analyze computer purchases made by the DDD of 708 21-inch monitors. The results of this review were made available in a separate memorandum issued on January 12, 2007.

All Other Non-Personnel Costs

We stratified all other non-personnel costs into nine categories: (1) Occupancy, (2) Contracted Costs, (3) Electronic Data Processing Maintenance, (4) Equipment Purchases and Rental, (5) Communications, (6) Applicant Travel, (7) DDS Travel, (8) Supplies, and (9) Miscellaneous. We selected a stratified random sample of 50 items from each FY based on the percentage of costs in each category to total costs.

General Security Controls

We conducted limited general security control testing. Specifically we reviewed the following eight areas relating to general security controls: (1) Perimeter Security, (2) Intrusion Detection, (3) Key Management, (4) Internal Office Security, (5) Equipment Rooms, (6) Security Plan, (7) Continuity of Operations, and (8) Other Security Issues. We determined whether the general security controls the DDS had in place were satisfactory.

Schedule of Total Costs Reported on Forms SSA-4513—*State Agency Reports of Obligations for Social Security Administration Disability Programs*

New York Division of Disability Determinations

FISCAL YEARS (FY) 2004 and 2005 COMBINED

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	182,155,822	141,603	182,297,425
Medical	56,738,359	530,137	57,268,496
Indirect *	15,267,533	12,296,274	27,563,807
All Other	32,056,871	-757,520	31,299,351
TOTAL	286,218,585	12,210,494	298,429,079

FY 2004

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	92,425,417	21,399	92,446,816
Medical	27,301,404	30,066	27,331,470
Indirect *	8,904,203	4,778,282	13,682,485
All Other	16,335,423	-1,381,326	14,954,097
TOTAL	144,966,447	3,448,421	148,414,868

FY 2005

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	89,730,405	120,204	89,850,609
Medical	29,436,955	500,071	29,937,026
Indirect *	6,363,330	7,517,992	13,881,322
All Other	15,721,448	623,806	16,345,254
TOTAL	141,252,138	8,762,073	150,014,211

* We did not review indirect costs as part of this audit.

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Refer To: S2D2G5

Date: May 11, 2007

To: Inspector General

From: Regional Commissioner
New York

Subject: Administrative Costs Claimed by the New York Division of Disability Determinations (A-02-07-17046) - REPLY

I appreciate the opportunity to review the attached draft report. I am pleased that the New York (NY) Division of Disability Determinations (DDD) was found to have effective internal controls over the accounting and reporting of administrative costs, that all disbursements charged to the Social Security Administration were allowable and properly allocated and that funds were properly drawn for fiscal years (FYs) 2004 and 2005.

The two recommendations outlined in the draft report are reasonable and will assist us in further improving the security and safety controls that are already in place.

If members of your staff have any questions concerning this correspondence, they may be directed to Gene Purk, (212) 264-7283 in the Center for Disability.

/s/

Beatrice M. Disman

OIG Contacts and Staff Acknowledgments

OIG Contacts

Tim Nee, Director, (212) 264-5295

Vicki Abril, Audit Manager, (212) 264-0504

Acknowledgments

In addition to those named above:

Abraham Pierre, Auditor

Stephen L. Liebman, Senior Auditor

James Kim, Program Analyst

For additional copies of this report, please visit our web site at www.ssa.gov/oig or contact the Office of the Inspector General's Public Affairs Specialist at (410) 965-3218. Refer to Common Identification Number A-02-07-17046.

DISTRIBUTION SCHEDULE

Commissioner of Social Security
Office of Management and Budget, Income Maintenance Branch
Chairman and Ranking Member, Committee on Ways and Means
Chief of Staff, Committee on Ways and Means
Chairman and Ranking Minority Member, Subcommittee on Social Security
Majority and Minority Staff Director, Subcommittee on Social Security
Chairman and Ranking Minority Member, Subcommittee on Human Resources
Chairman and Ranking Minority Member, Committee on Budget, House of Representatives
Chairman and Ranking Minority Member, Committee on Government Reform and Oversight
Chairman and Ranking Minority Member, Committee on Governmental Affairs
Chairman and Ranking Minority Member, Committee on Appropriations, House of Representatives
Chairman and Ranking Minority, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, House of Representatives
Chairman and Ranking Minority Member, Committee on Appropriations, U.S. Senate
Chairman and Ranking Minority Member, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, U.S. Senate
Chairman and Ranking Minority Member, Committee on Finance
Chairman and Ranking Minority Member, Subcommittee on Social Security and Family Policy
Chairman and Ranking Minority Member, Senate Special Committee on Aging
Social Security Advisory Board

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Resource Management (ORM). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts and/or supervises financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Chief Counsel to the Inspector General

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Finally, OCCIG administers the Civil Monetary Penalty program.

Office of Resource Management

ORM supports OIG by providing information resource management and systems security. ORM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, ORM is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.